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CHAPTER OFFICERS

DATES AND MEETING PLACES

NORTHERN CALIFORNIA CHAPTER

Meetings—3rd Wednesday of each month.
President—Stanley Freese, Matson Navigation Co., San Francisco
Vice Pres.—George Fouché, Swinerton & Walberg Co., San Francisco
Secretary—Miss M. Chalmers, Fibreboard Products, San Francisco
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SOUTHERN CALIFORNIA INSURANCE BUYERS ASSOCIATION

Meetings—3rd Wednesday of each month. Dinner, 6:00 P.M., Mona Lisa, Los Angeles
President—William A. Miller, Lane-Wells Company, Los Angeles, Calif.
Secretary—E. C. Jones, Southern California Edison Co., Los Angeles, Calif.
Treasurer—George P. Kohl, California Bank, Los Angeles, Calif.

CENTRAL ILLINOIS INSURANCE MANAGERS ASSOCIATION

President—G. T. Heinrich, Caterpillar Tractor Co., Peoria, Illinois
Vice Pres.—F. G. Sutherland, Illinois Power Company, Decatur, Illinois
Sec'y-Treas.—A. A. Baker, Funk Bros. Seed Co., Bloomington, Illinois

MARYLAND CHAPTER

President—T. V. Murphy, The Maryland Drydock Company, Baltimore
Vice Pres.—Robert M. Cone, Mathieson Chemical Co., Baltimore
Sec'y-Treas.—Miss E. C. Jacobs, The Maryland Drydock Company, Baltimore

MID-WEST INSURANCE BUYERS ASSOCIATION, INC.

Meetings—3rd Thursday of each month. September through May.
Dinner, 6:00 P.M., Chicago Bar Association, Chicago.
President—Frazier S. Wilson, United Air Lines, Inc., Chicago, Ill.
Vice Pres.—Henry C. Austin, Standard Oil Company, Chicago, Ill.
Secretary—Miss Ann Auerbach, Goldblatt Bros., Inc., Chicago, Ill.
Treasurer—Louis J. Ronder, Continental Ill. National Bank and Trust, Chicago, Ill.

MINNESOTA CHAPTER

Meetings—4th Tuesday of each month. Dinner, 6:30 P.M. at Covered Wagon, Minneapolis.
President—H. E. Towner, Minnesota Mining and Mfg. Co., St. Paul, Minnesota
Vice Pres.—A. Don Marvin, Green Giant Company, LeSueur, Minnesota
Sec'y-Treas.—Paul Mucke, Gamble-Skogmo, Inc., Minneapolis, Minnesota

NEW YORK CHAPTER

Meetings—4th Thursday each month, except July and August.
Luncheon, 12:20 P.M., Hotel Martinique, New York City
President—Claude H. Rice, The Babcock and Wilcox Company, New York
1st Vice Pres.—Raymond Cox, Arabian American Oil Co., New York
2nd Vice Pres.—W. D. McGuinness, The Port of New York Authority, New York
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CINCINNATI CHAPTER

Meetings—1st Wednesday of each month, except July and August. Luncheon, 12:00 Noon, Netherland Plaza, Cincinnati.
President—Charles H. Thiele, Federated Department Stores, Inc., Cincinnati
Vice Pres.—F. A. Schaefer, Crosley-Division Avco Mfg. Company, Cincinnati
Treasurer—T. J. McAdams, The Kroger Company, Cincinnati
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Secretary—R. S. Hayden, Armco Steel Corporation, Middletown

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Meetings—1st Wednesday of each month. Dinner 6:00 P.M., Hotel Multnomah.
President—William J. Jones, The First National Bank of Portland
Vice Pres.—E. W. Benson, Interstate Tractor, Portland
Sec'y-Treas.—R. E. Klein, Iron Fireman Mfg Co., Portland

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Meetings—3rd Monday each month. Dinner, 6:00 P.M., University Club, 16th and Locust Streets, Philadelphia
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CHICAGO IN NOVEMBER

Most of us are familiar with the lilting refrain of "Paris in the Spring"—and even if we've never been there, we dream of blooming chestnut trees and sidewalk cafes—children laughing at play. Some of us are going to CHICAGO IN NOVEMBER and maybe we don't know a single thing about this city except the legend of Mrs. O'Leary's cow and the great Chicago fire. But Chicago too is a "Dream City".

Imagine a brisk walk down Michigan Avenue in the crisp November air—Michigan Avenue with its Magnificent Mile, the Palmolive Beacon, Orchestra Hall, the Tribune Tower, Grant Park—the private clubs, the world's largest hotel, a college without a campus, a skyscraper built with chewing gum sales. To the east, majestic Lake Michigan; to the west—the busy Loop; to the south, a vast tenement district, and to the north—fabulous Lake Shore Drive.

For three miles from the Drake Hotel on the north to Roosevelt Road on the south, you can walk through the business section—a skyline of tall buildings and fashionable shops and restaurants. Here you can buy sables from Asia, jewels from a rajah's collection, clocks made during the Middle Ages, porcelain dating back to emperors, exotic perfumes—and you can eat food from almost any part of the world.

Turning toward the Loop—and to the Palmer House where NIBA will hold its meetings is another famous Chicago "institution"—the Palmer House named after the Chicago pioneer, Potter Palmer. When he opened the Palmer House in 1873 (not the present building), it was the first totally fireproof hotel in the United States. This was but two years after the great Chicago fire which virtually destroyed all of what is today the Loop. You can imagine that Mr. Palmer's fireproof hotel was quite a sensation. He even issued a statement in which he challenged anyone to start a fire in any of his rooms. "The doors to the room are to be left closed for one hour," Palmer said. "If at the expiration of this time, the fire does not spread beyond the room, the person accepting this invitation is to pay for all damages and for the use of the room." The challenge was never accepted—and probably never will be.

So, come to Chicago in November—meet with NIBA—and then leave Chicago with the same nostalgia as those who leave Paris in the Spring.

(See page 10)

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Buyergram

TO MEMBERS WHO HAVE OPERATIONS IN NORTH DAKOTA

Many Insurance Buyers are not familiar with the fact that the North Dakota Workmen's Compensation Law was amended July 1, 1953 and in the amendment no compensation insurance premium is required to be paid on wages in excess of the basic hourly rate of pay or any annual remuneration in excess of \$3,600.00.

ORGANIZATIONS SHIPPING MERCHANDISE THROUGH CONSOLIDATORS OR DECONSOLIDATORS:

We call your attention to the fact that organizations shipping merchandise through consolidators or deconsolidators should be sure that their transportation insurance is amended to cover merchandise in the hands of the organization during reshipping. The normal Inland Marine transit policy does not cover the merchandise after it arrives at the consolidator or deconsolidator.

B. E. KELLEY, MANAGER OF INSURANCE DEPARTMENT FOR U. S. PLYWOOD AND PRESIDENT OF N.I.B.A. IS CONFERENCE LEADER.

In cooperation with the Wisconsin Manufacturers Association, the University of Wisconsin (Industrial Management Institute) is presenting a series of conferences for financial managers. The first of a series was held on September 15th entitled "CAN INDUSTRIAL INSURANCE COSTS BE CONTROLLED?" B. E. Kelley was conference leader and among the topics discussed were: Where does insurance fit into the industrial organization? How should types and amounts of coverage be determined? Methods of insuring. How can we measure the benefits of the insurance program? Full information on the rest of the series of conferences may be obtained by writing to the University of Wisconsin, Extension Division, Box 2098 Madison, 5 — Wisconsin.

SOUTHERN CALIFORNIA CHAPTER INCREASING MEMBERSHIP.

Three new members were announced at the August 18th meeting of the Southern California Insurance Buyers Association. The Pacific Coast Borax Company; Byron-Jackson Company; Baker Oil Tools, Inc. The program for this meeting was scheduled as "movie" night and the members of the chapter were

shown pictures by the Baker Tool Company Inc. and the Byron-Jackson Company. The meeting was very well received and gave members an insight to a member's company not normally available.

ED DORIAN, ASSISTANT SUPERVISOR, INSURANCE DIVISION, Arabian American Oil Company has been in Europe assisting the Aramaco American Company in setting up an insurance program. AOC has offices in London, The Hague, Rome, Burma, Cairo and Sydney, Australia.

Dorian has visited Lloyds of London and the Bourse of Rotterdam.

AMA ANNOUNCES FIRST ORIENTATION SEMINAR.

American Management Association will inaugurate its first orientation seminar with two sessions to begin on January 5-7 and January 31-February 7 in New York City.

This new program will be primarily for new and part-time buyers of insurance and will cover a wide scope of subjects.

ERNEST L. CLARK, Assistant Treasurer, J. C. Penney Co., past president New York Chapter, NIBA and presently a member of the board of directors of NIBA will head up the sessions.

CINCINNATI CHAPTER ELECTS NEW OFFICERS.

At the annual June meeting the Cincinnati Chapter, NIBA elected CHARLES H. THIELE, Federated Department Stores, President succeeding MRS. L. M. CLORE. Other officers elected are; F. A. SCHAEFER, Crosley-Division Avco Manufacturing Company, Cincinnati, Vice President; T. J. McADAMS, The Kroeger Company, Cincinnati, Treasurer; A. T. REIS, Gruen Watch Company, Cincinnati, Assistant Treasurer and R. S. HAYDEN, Armco Steel Corporation, Middletown, Secretary.

WILLIAM J. JONES, PORTLAND, OREGON, CHAPTER PRESIDENT.

WILLIAM J. JONES, First National Bank of Portland, Oregon, was recently elected chapter President. Other chapter officers elected are E. W. BENSON, Interstate Tractor Company, Vice President and R. K. KLEIN, Iron Fireman Manufacturing Co., Secretary-Treasurer.

OUR APOLOGIES:—

We paid tribute to the ladies in our June issue and omitted the names of two ladies who have devoted many hours to NIBA, in the capacity of Chapter Secretaries. They are: Rita L. Doty, Coast Service Company, San Francisco, who has been Secretary to John F. Burke, First Vice President, NIBA, over the past years and has been partially responsible for the fact that the Pacific Coast boasts of three NIBA Chapters. Miss Doty also acted as temporary Secretary of the Northern California Chapter during the absence of Margaret Chalmers, who took a world cruise this summer.

Miss E. C. Jacobs, Secretary of the Maryland Chapter NIBA does a big job for Regional Vice President and Chapter President T. V. Murphy, in the interests of NIBA.



Here is a \$1,236,000 fire-resistive stock feed mill in New Orleans, May 11 last year. There was no watchman service nor automatic protection, and consequently, fire, originating in the third story, was not discovered until a watchman at another plant, looked over and saw smoke coming from the fifth story windows. Fire had spread vertically through several unprotected belt and conveyor openings and up wooden elevator legs and had involved the second through the fifth stories when firemen arrived.



Delayed detection is usually the case with church fires, that is, in those churches without automatic protection or watchman service. When this \$250,000 fire in Newark on July 5 was discovered, the auditorium was a mass of flames.



The regular night watchman was sick on the night this \$1,000,000 fire occurred in a South Milwaukee food machinery plant. No substitute was provided, and as a result, the undivided and unsprinklered 2-story building was in flames when noticed by a passer-by at 12:45 a.m.

LESSONS OF LARGE LOSS FIRES OF 1953

For The Insurance Manager

Thirty-one years ago, Mr. Franklin Wentworth, the then Secretary of the National Fire Protection Association, said that the phrase, "the loss was fully covered by insurance" was the most misleading combination of seven words in the language of modern business and that every fire is an industrial death. The fire insurance companies, said Mr. Wentworth, have not an ounce of raw material in their till, not a plank or a bar of steel, not a rivet or a wheel. They have dollars collected for indemnities; dollars collected from all of us to finance the individual who has the fire. This individual is generally regarded as an object for sympathy, but in most cases, he is a public offender and should be looked upon as such. Fire waste is the Great American Pick-Pocket.

That statement is just as true today as it was thirty-one years ago. Mr. Wentworth was talking about insured losses. He could have gone on to point out that in addition to the "insured" losses, there are many indirect losses not ordinarily covered by an insurance policy and others which cannot be measured in dollars. The list of the indirect losses is a long one and it is not my assignment to enumerate them here. I have, however, brought along for distribution some copies of an article entitled "Indirect Fire Losses in Business" that appeared in the October 1953 issue of the NFPA Quarterly.

You will find spelled out in this pamphlet a discussion of indirect losses and actual case histories of indirect fire losses. Similar indirect losses result from every disastrous fire, and any insurance manager who dares to believe that his plant or store or hotel is fully protected by an insurance policy against all possible losses resulting from fire is deluding himself and deceiving his employer.

Let no one leave this room believing that Babcock of the NFPA is 'agin' insurance. No one has to point out to me that without the protection and stability afforded



CHESTER I. BABCOCK

the American business man by insurance, industry and commerce would not have developed under our free enterprise system to its present enviable position of world leadership. But do not forget that (1) every fire destroys *forever* something of value, (2) the insurance premium that you pay is determined to a large extent by the aggregate value of material destroyed by fire, and (3) serious fires usually involve many uninsured and uninsurable losses.

Accepting these three facts, the conclusion is obvious — a serious fire is a wasteful, unprofitable event that under some conditions can put a company out of business and in any event will have many unpleasant effects. It will also be obvious that adequate protection for your plant, store, hotel or what have you, must include, in addition to insurance policies, a sound fire protection program to prevent serious fires from occurring. Advice on a sound fire protection program, incidentally, is one of the services offered by insurance companies to their policy holders. The cost of maintaining an engineering staff to furnish this advice is included in your insurance premium. Why not accept and use this advice!

Summary of 1953 Large Loss Experience

Last year there were 293 fires in the United States and Canada

with individual losses of at least \$250,000. This handful of fires produced a total loss of approximately \$275,000,000 or 24 per cent of the total fire waste.

We have recently completed an analysis of these largest fires to try to discover why they reached disastrous proportions. What did we find? — that complex, little understood fire problems were responsible? — or that knowledge of fire protection had not developed sufficiently to cope with modern fire problems? No! The inescapable and only conclusion to be reached from the study was that the basic principles of fire safety, which have been known for years, are not being applied in an important segment of our nation's stores, industrial plants, warehouses and other occupancies today. Certainly, there are problems engineering skill has not solved, but these are not responsible for the majority of the bad fire experience.

Failure to apply the basic principles of fire safety is where the trouble lies. There aren't very many of these principles and they are so self-evident that anyone should recognize their importance. Perhaps it's because they are so self-evident that they are often ignored. The four of these that I would like to discuss here are (1) prompt fire detection, (2) prompt alarm transmission, (3) effective fire extinguishment and (4) subdivision of fire areas. Failure to apply these four principles of fire safety was by far the most vital factor in the large loss fire experience of 1953, and, in fact, of every other year that has been studied.

I. Prompt Fire Detection

If fires are to be controlled with a minimum of damage, they must be discovered promptly. Fire chiefs will tell you that the first five minutes are the most important in any fire attack. In some instances, as when large quantities of flammable liquids, gases, combustible dusts and other rapid burning substances are involved, even a five minute delay is too long.

In seven out of every ten large loss fires in buildings, discovery was seriously delayed. Experience
(Continued on page 15)

Experience in Adjusting an Actual Business Interruption Loss

An address before the
Cincinnati Chapter, National
Insurance Buyers Association
By

Lloyd R. Everhard, Secretary
Trailmobile, Inc.
Cincinnati, Ohio

When I was asked to tell of some experience I have had as an Insurance Buyer I immediately thought of the largest loss Trailmobile has experienced and involved many interesting factors.

Newspaper reporters stated on the afternoon of the fire that the loss would reach one quarter of a million dollars. Actually, the total contents, building, and business interruption settlements totaled \$215,010.86. This was a rather accurate advance estimate of the amount of a loss.

We have never clearly established the cause of the fire. It was a warehouse. Plant personnel had access to the building up to approximately one hour before the fire was discovered. We can only assume that a carelessly discarded cigarette was the probable cause.

The fire occurred in a warehouse in our Springfield, Missouri, tank trailer plant on April 2, 1951. Tires and brass fittings were still scarce at that time because of demands of the armed forces involved in Korea. We maintain a rather fast turnover of our production inventories. We try to effect a four to five times turnover a year. The Springfield Plant was gradually increasing its output of trailers. We needed every tire and brass fitting in this warehouse to carry out our April schedule. There were 534 tires destroyed, and a substantial number of brass fittings.

Whether technically right or not our management first asked us to consider presenting a business interruption claim for the number of trailers that could have been built and delivered had we not lost the 534 tires. At that time we were averaging 6.57 tires per tank trailer. Following this theory we should then have claimed the loss of profit and continuing expenses on 77

trailers. Actually, our settlement was based on loss of profit and recovery of continuing expenses on 25 trailers. Why?

A careful review of our business interruption policy form (there were 32 companies on this business interruption exposure) reminded us that our policies were not "valued" policies in that they did not agree to pay a specific amount in the event of a shutdown. It was up to us to establish by some reasonable means an "actual loss sustained." In other words, we had to show what continuing expenses and earnings we would have realized had no loss occurred.

Business interruption insurance has been defined as that type of insurance which, when properly written, will do as much for the insured during a period of business interruption as the business would have done had no interruption occurred. This is not to be confused with profits insurance. Recovery under business interruption insurance ends when your business is or could have been placed in complete operating condition. In our case, our operations were back to normal by May 1, 1951. Our business interruption period was then April 2 to May 1, 1951.

Business interruption insurance does not necessarily pay losses oc-

curing during the lag between physical re-opening of the business and a return to completely normal business operations.

Loss of good will through failure to fill orders on time is not insurable under business interruption standard policies. You can, for an additional premium, purchase extra expense insurance which reimburses you for extra expense incurred to bring back lost customers under these circumstances. But here, you are insuring the expense and not "good will."

So, what was wrong with our idea of taking the tires we lost and determining how many trailers they would have equipped and thereby determining the amount of our claim?

Heavy duty tires were in short supply. We could shift some surplus inventories from other plants and company operations but not enough to be of any material help. Furthermore, we had to be careful not to rob other Trailmobile operations causing a loss of orders at those locations since the business interruption policies in force at Springfield insured losses at that plant alone. This is true of the standard form of business interruption policy. You must specifically provide for multiple location exposures.

But even so, assume for the moment that tires were not readily obtainable—would not our customers wait for delivery? This was an act of God and is usually taken into consideration on performance of most contracts.

Here you had to reckon with the highly competitive nature of our industry. The majority of our customers schedule the purchase of their equipment with the awarding of hauling contracts or ICC authority. Many pay for their equipment on time out of current revenues. A month's delay in receiving delivery of a tank trailer may mean that they lose out on obtaining a hauling contract or miss a seasonal peak in a given commodity haul. Therefore, all manufacturers in the industry are quick to seize an opportunity like this and try to substitute one of their units for the original make ordered by the customer. (Continued on page 10)



Lloyd R. Everhard

EXPERIENCE...



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(Continued from page 8)

Another factor gave support to the tire claim approach. We maintained no inventory of new tank trailers. Few people realize that a majority of tank-trailers are built to specific orders. Practically every customer demands some modification in the design of his trailer to meet situations encountered in his operation. We, therefore, had no finished goods on the shelf to bring out on the counter when this warehouse was destroyed.

We presented the tire shortage theory to J. J. Conway of Western Adjustment & Inspection Co. in Cincinnati, and his associate, H. L. Murtaugh in Springfield, Missouri. They agreed it had merit but at the same time questioned how real the tire shortage was. Our material expeditors meanwhile were contacting the tire manufacturers. The Cincinnati Plant transferred its surplus to Springfield. By the end of April we had sufficient tires on hand to conduct a normal operation.

This was doubly important since again our business interruption policies at Springfield contained the standard 30-day raw stock provision. This meant that in the event the facility was restored so as to permit a normal operation but we still had not been able to replace stock such as tires and brass fittings which had been destroyed in the fire, we were limited in our recovery to that period during which the facility was not completely available. Therefore, where you are processing a material which is in short supply and difficult to replace, and you carry business interruption insurance, it is well to look into the cost of extending the 30-day raw stock standard provision to whatever period you normally need to replace such raw stock.

Since this was a warehouse which had been destroyed we utilized six van trailers as temporary storage from April through October until the building was restored. We were allowed \$3,100.00 for rental of these trailers which had been loaned to the manufacturing plant by our Sales Branches on the basis that it enabled us to get back into operation sooner. Had we not used these trailers for temporary storage, the

insurance companies would have allowed rental of other warehouse space in the area. The insurance companies also paid us \$699.56 freight for transferring these units to Springfield.

Next, because of the fluctuating nature of our business, it was agreed that we would not attempt to negotiate a settlement on an estimated basis. Instead we decided to defer settlement until April, 1952 by which time we could more accurately determine what our sales and production of tank trailers actually were for the 12 months following the fire.

Therefore, this was one of the most important developments in the entire settlement. For in the months of January, February and March, before the fire, Springfield Plant produced 84 tankers in January, 76 in February, and 95 in March. There were 100 scheduled for April—so the Plant Manager told us when he reported the fire. But only 70 were actually produced in April. In the 12 months which followed, 100 tanks were completed in May, and 84 in June at which time a physical inventory was taken. In July, with a two-week plant-wide vacation shut-down, only 36 units were produced. Then a steel shortage hit us in August and 31 units were turned out. In the following months through

March of 1952 there were produced 88, 93, 84, 64, 66, 63, and 55 units at Springfield.

May, with 100 units completed, was accepted as a norm. May had 22 working days. This approximated $4\frac{1}{2}$ units per work day. April was set to produce 100 units. All materials were on hand. Using the May average production per day as a norm, $95\frac{1}{2}$ units would have been produced in 21 working days in April. But because of the fire only 70 were produced.

We then agreed to use 25 units as the number of units lost. By an actual review of the total sales and continuing expenses for the year we were able to develop a business interruption value for these 25 units of \$60,332.76.

This coverage was written on an 80% co-insurance basis. With actual figures available for the 12-month period following the fire it was established that the amount of insurance in force, as of April 2, 1951, was 21% below that which actual performance indicated we should have had. We were then entitled to 79% of the \$60,332.76 as our business interruption recovery or \$47,593.27 to which was added expediting expenses of \$3,423.06 to produce a final settlement of \$51,016.33.

Through this settlement we recovered reimbursement of continuing (Continued on page 24)

NOTICE

Pursuant to Article VIII, Section 1, of the Constitution, notice is hereby given that the annual meeting of the National Insurance Buyers Association, Inc., for the purpose of electing a Board of Directors and the transaction of other business will be held on Thursday, November 11, 1954, 6:30 P.M. at the Palmer House, Chicago, Illinois.

National Insurance Buyers Association, Inc.

Peter A Burke

Secretary

Dated, New York City,
September 7, 1954

This Takes Skill!

This plantation worker tosses coffee beans high into the air and with artistry of motion separates them from the chaff. It looks easy—but it takes skill.

It also takes skill to protect properly and adequately the heavy investment in property, machinery and equipment of the coffee business or any other business of Americans in foreign lands.

AFIA has that skill.

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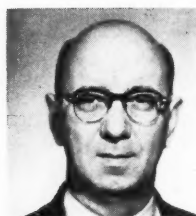
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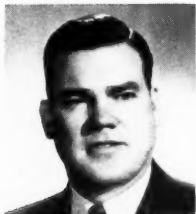


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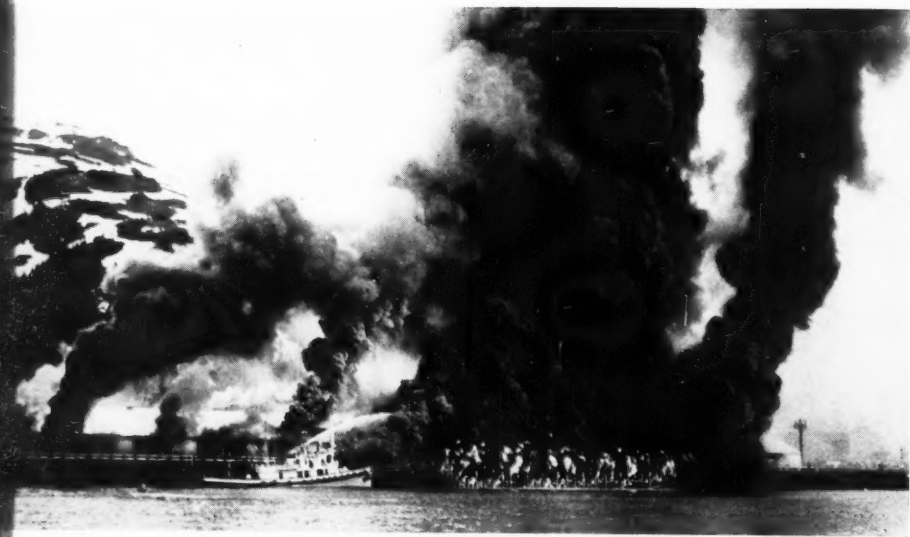
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This fire in a paper box factory caused damage of \$1,050,000. The story differs from the Andersonville fire in that the strong Anderson Fire Department was available in this instance. The results in the two fires were the same, however, because of strong automatic protection had not been provided to control the type of fast spreading fire that could be expected to occur in a paper box plant. The fire originated in a pile of refuse near a slot-punching machine, and although discovered promptly by employees, spread up a wooden door to the under-surface of the roof. Soda-acid extinguishers, used by employees, had no effect on the fast spreading fire, and flames raced through the dust accumulation on structural members of the roof deck and had involved most of the building when apparatus arrived.



This \$10,000,000 pier warehouse fire at Whittier, Alaska, is another example of poor guesswork as to where the fire is going to start. The substructure of the 2323-foot-long pier was not sprinklered nor were the attics of two other-wise sprinklered pier warehouses. As luck would have it, the fire started in the unsprinklered attic of one of the buildings, broke through the roof, burned down on the outside of the warehouse of the unsprinklered pier substructure and then spread rapidly the entire length of the pier. Of course, you know that the Livonia plant was partially sprinklered—20 per cent, but no sprinklers were within several hundred feet of the point of origin of the fire.



Naturally, our old friend, The General Motors Fire at Livonia, Michigan, must be brought into the discussion on excessive areas. Several fire protection weaknesses contributed to cause that 55 million dollar loss, but, first in order of importance, was the undivided fire area of one and one half million square feet, or about the area of 23 football playing fields. This picture shows the type of fire that can occur in a large area non-combustible building containing several thousand gallons of flammable liquids when the building is unsprinklered or partially sprinklered, and when the large area is not sub-divided by fire walls. Hose streams could penetrate no farther than 50-75 feet into the 866-foot wide building.

(Continued from page 7)

varies among the broad occupancy groups but in every group, delayed discovery showed up repeatedly as an important contributing factor. Discovery was delayed in 6 out of every 10 large manufacturing plant fires, 9 out of 10 mercantiles, 7 out of every 10 warehouse fires, and in 11 of each 12 school fires.

Perhaps the best way to emphasize the importance of prompt discovery is to look briefly at some of the large fires in properties where managements gambled the continued operation of their businesses against the cost of providing for prompt fire detection.

Our records show that substandard watchman protection is apt to be no better than no watchman service at all. This was true in 13 large loss fires last year. Each year, for example, we find fires in buildings where the watchman is hired to patrol outside the building only. What are the chances of discovering a fire inside when still small if the watchman's tour does not take him through the interior at regular intervals? Then we have those cases where the watchman is assigned several duties in addition to his watchman responsibilities, and we also find places where the management apparently feels that it is all right if the watchman takes a little nap during the night or goes home early. After all, this watchman business is just a foolish whim of some insurance company engineer anyway!

It has been said that if you have an elderly employee whom you would like to relieve of some duties, but still do not want to pension, don't make him into a watchman, but make him Vice President—he'll cause you less damage!

II. Prompt Alarm Transmission

Now prompt detection is so important because it gives opportunity to assemble and use available equipment and manpower while the fire is still small—before it develops to such a size that fire fighting equipment is ineffective. An obvious and vital fact. But it's surprising how many managements have not driven this point home to their watchman and other employees. One could be led to the con-

clusion from the fire records that in some instances orders had been issued to call the fire department only as a last resort. However, I am inclined to believe that this principle of fire safety, prompt alarm transmission, also is violated so often only because it seems so self-evident that managements neglect to stress it to their employees. The fire department is waiting in the station; for heaven's sake, let's give them a chance to do an effective job by calling them promptly. I can tell you that any fireman would prefer to make 10 trips to your property, find the fire out, turn around each time and go home, rather than spend 6 hours on the end of a hose line because the alarm was delayed.

No photographers were around to take pictures of the next two fires but the cases are so pertinent to the subject of prompt alarm transmission that they should be mentioned briefly. A \$267,000 fire occurred in a grain mill at St. Joseph, Missouri, on November 27. Sparks from a welding torch used to make repairs on the fifth floor of the unsprinklered 5-story building were the cause. On discovering the fire, the welding crew attempted to control it with several first-aid extinguishers, and the alarm was not transmitted until a gasoline station attendant saw flames coming from the fourth and fifth story windows.

At a paper products plant in Los Angeles, fire was discovered quite promptly in bales of scrap paper, but the 20-minute delay in fire department notification as employees tried to control the blaze with portable extinguishers allowed fire to spread beyond control in the unsprinklered, undivided 28,000 square foot building before apparatus arrived.

III. Effective Fire Attack

The examples just cited indicate pretty well the unfavorable odds at which management gambles against serious fire damage by slighting prompt detection and prompt alarm transmission. A third fundamental of fire safety that is so often neglected is the provision of strong facilities for fire control, both manual and automatic. I refer to private fire brigades, public fire

departments, adequate water supplies, and, of course, sprinkler protection. The value of prompt discovery and alarm transmission is weakened considerably if strong means are not available to put out the fire. Here is another fundamental of fire safety that is so self-evident that it would hardly seem necessary to mention its importance. Yet look at the record of serious building fires last year. Nine were located in areas where there was no public fire protection, 54 in towns of less than 5000 population where it is economically impractical to maintain public protection to cope with fires in large industrial plants, warehouses, hotels and stores, but nobody apparently gave this much thought since a private fire brigade was provided in only one instance—in 201 of the 214 fires where sprinkler protection could have been provided, it was not. Here are a few case histories that show how much management stands to lose by not providing strong fire fighting facilities:

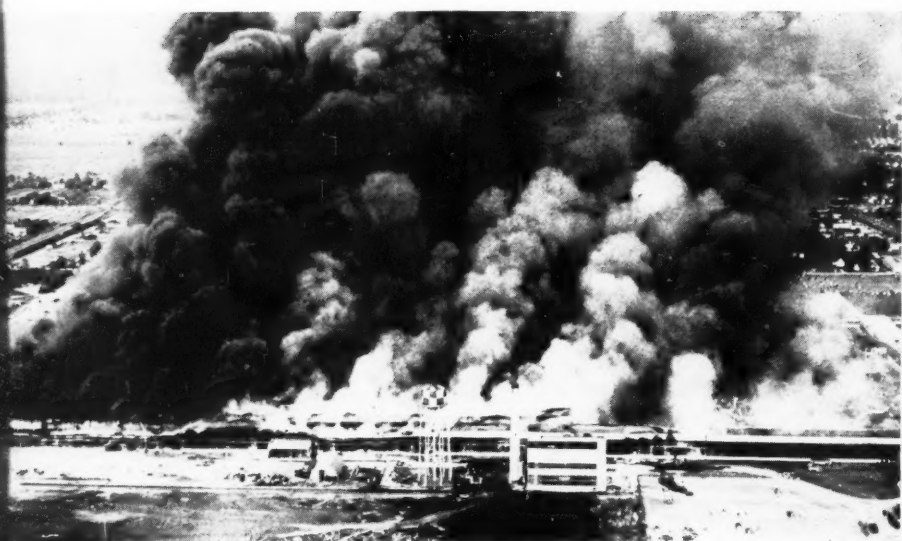
There were 23 large loss industrial fires in buildings protected by automatic sprinkler. That this protection was unable to prevent severe damage is an indictment of those responsible for fire safety in these buildings rather than a criticism of the sprinklers. Take, for example, the \$356,000 fire in a veneer plant in Statesville, North Carolina. The fire originated in a sprinklered dryer and because the sprinklers were shut off for some unexplained reason, an intense fire eventually burst out of the dryer and spread to all parts of the undivided 59,000 square foot building. No action had been taken on recommendations by an insurance company engineer to erect a fire wall and thereby reduce the area subject to destruction by a single fire.

Partial sprinkler protection is certainly better than none and has frequently done an excellent job in controlling fires that start in the sprinklered area. Unfortunately, it is pretty difficult or impossible to know with certainty where all fires will start, and when fires start in an unsprinklered area, the results are apt to be something like the \$2,657,000 fire at a paper box fac-

(Continued on page 16)



Four guests of this resort hotel in Rosendale, New York, were trapped and killed, 14 more were injured on July 28 when fire swept through the annex into the main hotel. The fire was discovered by the crew of a freight train at 5:45 a.m., an hour and fifteen minutes after the watchman had gone off duty.



There are many things we could say about the next fire pictured here—you will recognize it as the largest industrial fire on record, and that occurred in Livonia, Michigan, last August. The story of this fire has been so well publicized that I will not recite it at this time, but I would like to recall one point relative to alarm transmission. The fire, as you know, broke out in the afternoon when operations were in full swing. On the basis of interviews with observers, the Michigan State Fire Marshal believes there was a delay of between 15 and 20 minutes before one of the plant protection men telephoned the Livonia fire department. A spokesman for the plant management fixed the delay at 6 minutes. Even a one-minute delay is too long when 55 million dollars is at stake!



Two hours and 45 minutes after smoke was first observed coming from a ventilator in this Yuma, Arizona, department store, an outsider informed the fire department. During this time, fire had been developing in the concealed space between the roof and combustible ceiling. Customers had advised store employees of smoke from time to time but it was attributed to locomotives in a nearby freight yard. Fifteen minutes after firemen arrived, the ceiling collapsed.

(Continued from page 15)
tory in Philadelphia. The unpardonable sin of permitting approximately six acres of undivided floor space in a box factory, two-thirds of which was unsprinklered, was the principal reason that the one-story building was destroyed. The fire was discovered by a watchman in an unsprinklered roll paper storage area, and before fire apparatus had arrived at the scene, had spread rapidly over rolls of paper, through unprotected doorways, overpowering sprinklers in the sprinklered areas.

IV. Sub-Division of Areas

So much for the importance of prompt fire control by manual and automatic means as a factor in building fire protection. A fourth principle of fire safety that is sometimes violated with disastrous results is the fundamental truth that small fire areas mean small losses. This is another way of saying that by subdividing large areas, the amount of loss that can be caused by any one fire can be definitely limited. If I were to rate the various principles of fire safety in their order of importance, subdivision of fire areas would be Number One. If your fire prevention program slips up, if your watchman isn't on the job, if your sprinkler valves are closed—if all else that you have relied on to prevent large fires fails—the size of the fire will still be limited by the size of the area in which it starts.

It would be ridiculous for anyone to advocate small fire areas in all situations. I realize that large areas are an inherent part of the assembly line operations and no one is advocating chopping up the assembly lines with fire walls to increase fire safety. What we do say, is that areas should be limited to the size absolutely necessary, that special hazards should be segregated, and that in necessarily large areas, additional stress must be put on facilities for prompt fire detection and control.

But disregarding the necessarily large areas of modern plants, there are several ways in which the principle of fire safety can and should be applied. In 65 per cent of the large loss building fires last year,

failure to subdivide areas to reasonable dimensions, permitted the fire to reach "large loss" proportions. The gamble with fire in these buildings was on a "win all—lose all" basis. I think you will agree that the gamble was made on unnecessarily unfavorable odds after reviewing a few of these fires.

A fire wall by definition is a wall with all openings protected. I sometimes wonder if this requirement for protecting openings is universally recognized, since we find so many fires in buildings in which walls have been thrown up ostensibly to restrict fire, yet doorways in the walls are either unprotected or fire doors are blocked open. A \$500,000 fire in a refrigeration machinery factory in Windham, Maine, is a good example. Although the fire was beyond control in a 1-story building when discovered, it should not have entered an adjoining 2-story building because of an intervening fire wall. Unfortunately, an automatic fire door in the wall had been blocked open and fire spread through this opening.

Subdivision of fire areas means vertical subdivision as well as horizontal subdivision. Vertical subdivision is accomplished by enclosing stairways, elevator shafts and other openings through which a fire could spread from floor to floor. Failure to do this had resulted in some of our worst hotel disasters. A \$640,000 hotel fire in Atlantic City, New Jersey, almost cost the lives of four occupants because vertical shafts were not enclosed. The fire originated in an unoccupied guest room on the fourth floor of the unsprinklered 7-story hotel. The fire department was called, all guest rooms were telephoned and employees went from room to room notifying guests to leave. Most of the guests escaped before smoke and heat and fire filled open halls, stairs and elevator shafts. However, three guests and a maid were trapped in the seventh story as fire spread up through the undivided building. They were eventually rescued from a ledge by an aerial ladder.

We could go on for hours citing similar case histories where buildings have experienced disastrous fires because one or more of these four fundamental principles of fire safety have been violated. It does not seem necessary to present further evidence to show that the odds are very much in favor of a large loss fire in those buildings where provision has not been made for prompt fire detection, prompt alarm transmission and prompt fire attack, and where excessive areas without adequate compensating protection are allowed.

Another point I would like to make in regard to these four principles of fire safety is that any one of these by itself will not guarantee protection against a large loss fire. While I have used certain fires to illustrate the importance of each individual principle, you undoubtedly noted that in no case was the absence of one feature alone responsible for the large loss. Serious fires are without exception due to a combination of fire protection weaknesses. It's not delayed detection alone—but delayed detection PLUS large area; not just delayed alarm transmission, but delayed alarms in combination with closed sprinkler valves, excessive area and so forth.

Just one more thought. In my opening remarks, it was suggested that anyone who believed that an insurance policy, by itself, could protect him from all the losses receiving from fire, was deceiving himself and his employer. We have been looking at the pictures of some of the buildings that suffered disastrous fires last year. Large insurance policies were written on most of these buildings, but do you for a minute think that the owners of any one of those properties—if asked today—would say that all the losses resulting from his fire was anywhere near "fully covered by insurance"?

So, I would like to close by repeating that you only have adequate protection when your insurance policy is supplemented by a sound fire protection program.

Condensed from an address by Chester I. Babcock, Manager, Fire Record Department, National Fire Protection Association, Boston, Mass., delivered to the New York Chapter, National Insurance Buyers Association, May 27, 1954, Hotel Martinique, New York, New York.

INSURANCE AS RESPECTS ITS IMPORTANCE TO CREDIT

The interdependence of insurance and credit is not readily apparent to the uninitiated individual. To the man who has been delegated the responsibility of maintaining an adequate insurance program, the interdependence of insurance and credit is synonymous to business solvency; and business solvency in the event of disaster is exactly what an adequate insurance program must provide. I must assume that most of you are intimately associated with the operations of business credit. It is very likely that many of you depend on the advice afforded by the very excellent credit rating organizations; but times change rapidly, and your ability to interpret the current financial condition of your customers may spell the difference between profit and loss. To assist you in determining whether your customers' business hazards are adequately insured, I should like to discuss briefly some of the various types of coverages necessary for a sound insurance program.

Perhaps one of the first steps you may take to determine the amount of credit you can extend to a customer after checking the Dun & Bradstreet's or other mercantile ratings is to examine the assets listed in a current financial statement of that customer. In the event of a casualty, how many assets would be protected by insurance?

Cash is the first item listed. While there are no accurate statistics published on the total embezzled or stolen by employees, the estimate has been that it is in excess of \$400,000,000 annually.

In some instances the total thefts from a particular firm have been so large that bankruptcy resulted. There are several policy forms available such as Individual, Schedule, Primary Commercial Blanket, Blanket Protection, Comprehensive Crime and Comprehensive "Three-D".

I recommend the coverage afforded by the Three-D policy which is certainly broad, and generally in-



By **R. S. Bass**
Treasurer
A. E. Staley Manufacturing Co.
Decatur, Ill.

cludes the following types of coverage:

1. Dishonesty of employees.
2. Burglary of merchandise.
3. Theft of merchandise.
4. Safe burglary.
5. Inside robbery.
6. Outside robbery.
7. Paymaster robbery.
8. Destruction of or damage to money and securities.
9. Money orders and counterfeit paper currency.
10. Forgery of issued instruments.
11. Forgery of accepted instruments.

Excess coverage can be provided on certain designated persons or positions. Some companies will issue an endorsement to cover agents, brokers, and warehousemen.

Trade accounts receivable is another asset which can be protected to a certain extent by insurance. In discussing this protection, a dual purpose can be served — protection of our prospective customer, and protection of our own accounts receivable records. Not only do these records represent considerable diligence on the part of you and your

staff, but they also represent assets owed your company by its customers. There is no need to tell you that credit is the American way of transacting business, and that payment is effected upon receipt of a bill or statement. Would all of your customers remember the amount they owed and pay without a statement? Perhaps they would, although it is a risk that any person interested in the financial soundness of their company should not by-pass unless the consequences have been seriously considered.

In brief, the policies available insure against actual loss sustained through inability to effect collection of unpaid balances or accounts as a direct result of loss or damage to your accounts receivable records. If this type of coverage is new to you, it would be well for you to thoroughly investigate the merits of this type of protection.

Credit insurance, which is a guarantee to manufacturers and wholesalers and certain service organizations that they will be paid for merchandise or services against the inability of a debtor to pay his obligations, should be mentioned here as an available coverage since it guarantees the value of working capital invested in accounts receivable. Elmer Miller of the New York Journal of Commerce, in an article published February 27, 1953, indicated "Credit Insurance Spreading; up 100 per cent in 5 years."

Returning to the financial report, we note that a large amount of money is invested in inventory consisting of finished products, raw materials in process and to be processed into product, and sundry supplies. We wonder immediately where this material is and how well it is protected. The generally accepted coverage for this asset is based on damage by fire, explosion, water, riot, windstorm, etc. Since our interest in this type of coverage also extends to protection of buildings, machinery and fixtures, it is well to discuss all these items simultaneously.

We all know that, generally speaking, the larger industrial companies are well insured for the hazards they have established as too great

(Continued on page 20)

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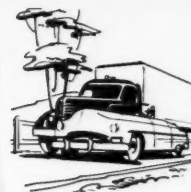
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Consult your Lumbermens agent today. Let him study your insurance problems and work with you toward more protection with fewer policies—at a lower net cost.

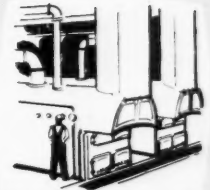
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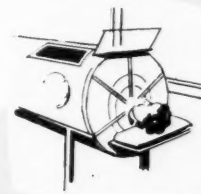
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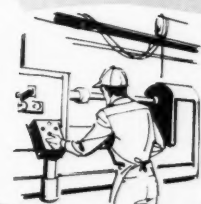
HOSPITALIZATION



POLIO EXPENSE



PLATE GLASS



WORKMEN'S COMPENSATION

(Continued from page 18)
a risk to underwrite themselves. On the other hand, many small and medium-sized companies are seriously under-insured and thus invite bankruptcy in case of catastrophe. Perhaps many of you have seen the survey published by the Bankers Information Bureau of Kemper Insurance, entitled "Under-Insurance in American Industry", and were amazed, as I was, at the results. The survey included the analysis of one hundred plants with total assets ranging from \$50,000 to \$3,000,000 and annual sales ranging from \$40,000 to \$1,350,000.

Some of the rather astounding results of the survey follow:

1. Plants having up-to-date appraisals — 2 per cent.
2. Plants having out-of-date appraisals — 20 per cent.
3. For fire insurance:
 - (a) Plants under-insured — 56 per cent.
 - (b) Amounts of loss recoverable in event of partial plant destruction — 14 to 86 per cent.
 - (c) Average amount of loss recoverable in event of partial plant destruction — 52 per cent.
 - (d) Extended coverage endorsement attached to fire policies — 49 per cent.

It isn't difficult to believe the report furnished by Dun & Bradstreet, that 43 per cent — nearly half — of all firms suffering serious fire losses never re-open after a serious fire loss.

Our problem, then, of analyzing the insurance protection enjoyed by our customer or prospective customer, is to determine whether or not the coverage is sufficient. At present, the problem of determining the size of the exposure is not too great. Physical values can be determined with sufficient accuracy with intermittent appraisals and annual revision. Business indexes as published in the Federal Reserve Monthly Bulletins provide a means of checking values for the interim between appraisal revisions. Many of you are familiar with fire co-insurance, where, in exchange for a lower fire insurance rate, the assured agrees to buy and maintain

an amount of insurance equal to 80 percent or 90 per cent of the value of his plant. Briefly the existence of the co-insurance clause in our customer's fire insurance should assure us that

(1) an accurate valuation of his property has been made to have complied with the co-insurance requirements, and

(2) this valuation is reviewed periodically to maintain its validity.

In policies subject to co-insurance, under-valuation of assets will result in a co-insurance penalty. I recommend that the amount of insurance to be carried be slightly higher than the present day value. This will provide a co-insurance safety factor well worth while in this period of increasing costs.

As an example of what this co-insurance clause may mean in the event of a partial loss, and to illustrate the absolute need for knowing present-day values, let me tell you about a businessman who was carrying \$40,000 of fire insurance on his plant. At the suggestion of the makers of the survey mentioned above, he had an appraisal made that cost him \$350. It revealed that the current value of his plant was \$102,000 — so he immediately increased his fire insurance to \$82,000 to meet co-insurance requirements.

Seven months later a fire caused \$47,000 damage to his plant. Under his former coverage — because of co-insurance requirements — he could have collected only \$18,430 from his insurance company and would have had to pay the remaining \$28,570 himself. Under his new policy, he collected the full \$47,000. Therefore, this businessman spent \$350 for an appraisal that saved him more than \$28,000.

The vandalism and malicious mischief coverage as written under the broad Form B became quite popular about twelve years ago. A large amount of this type of insurance was written at a rate of three cents per \$100 per annum and later reduced to 1.6 cents and, much to the surprise and pleasure of the insurance companies, the losses were extremely small. Although the degree of hazard was smaller after the second World War, the insurance companies recognized a defi-

nite peacetime need for this type of coverage. About January 1, 1950, the insurance companies met the challenge by making the coverage available as a part of the extended coverage endorsement, and the rate of 1.6 cents for \$100 per annum was reduced by the stock fire companies to one (1) mill. I understand that the associated mutuals now provide this coverage, under their extended coverage endorsement, without any additional charge.

Boiler and Machinery

Boiler and machinery coverage is vital to most manufacturing plants. The survey indicates that about 90 per cent of the plants do have boiler coverage, although only 9 per cent of this group have adequate limits of coverage. The picture with regard to machinery breakdown is more serious since only 15 per cent of the plants surveyed carry this type of coverage. The desire to operate plants at capacity and the proper business conditions during the past few years have influenced the condition of this equipment. The effect of this continuous use and perhaps insufficient maintenance of equipment has resulted in increased boiler and machinery losses. Therefore, a portion of our task in analyzing this financial report is to recognize the need for adequate coverage in this phase of our customer's operations.

A simple and comprehensive boiler and machinery policy form should specify: "All boilers, pressure and vacuum containers, piping, appliances, valves and fittings connected thereto or operated therewith are insured against accidents" and "all rotating, reciprocating electrical machinery and electrical equipment are insured against accident." This coverage, applied with a judicial use of the deductible clause, would provide the complete inspection that is desirable and the loss payments that are necessary.

The companion coverage to "Fire and Extended Coverage Property Damage" and to "Boiler and Machinery Property Damage" is Business Interruption Insurance. This coverage provides for net profits,

(Continued on page 21)

(Continued from page 20)
fixed charges and expenses during a period of disaster, and enables a business to maintain the same relative financial position during a period of restoration as it had prior to the loss. Perhaps many of you are familiar with this type of coverage under the title, "Use and Occupancy."

The need for this form of insurance seems difficult for many businessmen to understand. They know the "why" of fire insurance because they have seen fires, smelled smoke, seen firemen in operation. They know the physical damage a fire can do. The difficulty comes in realizing that a business interruption loss can, and often does, exceed actual property damage.

Loss Statistics Quoted

Let us look at some more statistics — a study of several hundred 1951 fire losses. In 30 per cent of the losses studied under \$5,000, the Business Interruption loss exceeded the Property Damage loss. In 38 per cent of the losses over \$5,000 studied, the Business Interruption loss was greater than the Property Damage loss.

The hard fact is that even though fire and extended coverage insurance are carried to cover the full value of property, a serious fire can leave a company without means to continue its business.

Statistics show that 99 per cent of firms carrying business interruption insurance suffering serious fire losses have rebuilt their plants and continued their operations. Business interruption coverage has properly been called the life, health and accident insurance of business.

A collection problem is made infinitely easier when business interruption insurance is available after a serious fire or boiler and machinery catastrophe.

Another hazard which can seriously affect the assets of a company is claims by third parties (or non-employees) for damages or injuries arising out of company operations or from the use of a company product. Large uninsured claims in this field have forced business concerns into bankruptcy. Protection against this hazard is afforded by Public

Liability Insurance. Automobile liability and products liability should be included in this category as well as general liability insurance.

Again some statistics from the survey "Under-Insurance in American Industry" with regards to liability insurance coverage.

1. For General Public Liability Insurance:

- (a) Plants not carrying this coverage — 10 per cent.
- (b) Plants carrying comprehensive form of policy — 11 per cent.
- (c) Plants carrying property damage coverage — 15 per cent.
- (d) Plants carrying adequate bodily injury limits (\$100,000/\$300,000 or more) — 14 per cent.
- (e) Plants carrying adequate property damage coverage — none.

2. For Automobile Insurance:

- (a) Bodily injury and property damage:
 - (1) Plants carrying adequate limits (\$100,000/\$200,000) — 6 per cent.
 - (2) Plants carrying comprehensive form of coverage — 2 per cent.
- (b) Physical Damage:
 - (1) Plants not carrying coverage — 14 per cent.
 - (2) Plants carrying comprehensive form of coverage — 12 per cent.

A generally accepted safe and adequate plan is to cover legal public liability to non-employees for claims arising out of their operations with a limit of \$100,000 per bodily injury claim, \$1,000,000 for all bodily injury claims arising out of one accident and \$3,000,000 aggregate as to product claims. A property damage legal liability limit of \$500,000 per accident and \$3,000,000 aggregate for exposure is desirable. Automobile legal liability to cover non-employees' claims arising out of the operation of automobile equipment for industry should carry limits of \$100/300,000 for bodily injury and \$100,000 for property damage.

While generally on automobiles and trucks, the limits suggested

above are adequate, due consideration should be given to the fact that in recent months several freak automobile accidents have been reported in newspapers and trade magazines where the resultant losses were in fantastic amounts. For instance, a crash between a truck and a passenger car in Pennsylvania, which brought death to three persons and permanent injuries to two others, produced actions in court, calling for \$2,000,000 damages. In a railroad crossing wreck, a truck caused considerable damage to the train and the claims paid for both property damage and bodily injury were very high.

Some companies having many heavy tank trucks now carry bodily injury limits of \$250,000/1,000,000 and property damage limits of \$500,000.

Use Life Insurance

Life insurance may be used as a means to protect business solvency of a small organization. The effect of the death of an owner or principal partner in a partnership or close corporation can sometimes be disastrous. The protection afforded by life insurance on a key individual is a must with many small businesses.

The analysis of our customers' or prospective customers' balance sheet and supplemental information has been concerned with the type and amount of insurance coverage needed. I believe we would be remiss if our investigation ended at this point. Remember that our major interest here is business solvency for our company, and the question presenting itself right now is "how good is the underwriting company or companies used by our client?" This may appear to be a vicious circle — do we have to insure our insurance? Actually, proper analysis of the financial report must consider the stability of the underwriter. The task of determining this stability may become quite involved. This information, however, is generally available from the insurance departments of the various states and, of course, agencies and insurance buyers associations.

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Stock Versus Mutual Insurance

There are many arguments and biased comparisons made of stock, mutual, and reciprocal systems of writing insurance. These arguments prove little because insurance is good or bad, depending on the management of the carrier rather than on the kind of operating plan that the carrier employs. Any particular system of insurance should be judged in the light of the record made by the leading members of that system. If an adequate number of insurance companies employing any of these plans have operated successfully for a long period of time, we can conclude that each system is sound in principle. For our purposes perhaps we should consider a few of the basic factors available in the rating of an insurance company. We are interested in the

(1) ability of the company to

pay a claim, or how much money do they have immediately available;

(2) experience the company is currently undergoing in regard to claims and losses, or are losses in excess of premium income;

(3) background or financial groundwork, especially with regard to investment of assets;

(4) diversification of business undertaken by the company, or how well is the liability of the company distributed in terms of the type and location of insurance in force.

Maintain Solvency

Perhaps these qualifications appear somewhat abstract. However, if I have succeeded in arousing your interest in the need for extending your review of financial statements to the insurance protection behind the statement, then I have achieved my purpose.

The statement with which I

initiated this discussion is still paramount in my mind. I sincerely believe our responsibility is to maintain business solvency. With a view toward evolving something worth while, I established the objective of

(1) explaining what the credit man should know about his and his customer's insurance program, and

(2) to briefly define those programs to permit an easy evaluation of a financial statement.

Speaking as a financial executive to whom the corporate insurance administrator and the credit manager both report, I must say that the task of the credit man is not an easy one, but certainly not an impossible one. This job requires the diligent application of principles, which I believe I have outlined.

In summary, the credit man must evaluate the insurance program of a business in terms of replacement of the entire physical structure plus the guarantee of earnings in the event of a casualty.

CENTRAL ILLINOIS CHAPTER FETED IN HAWAIIAN ATMOSPHERE FOR ANNUAL MEETING

Miss Vena Blair, Manager of the Funk Brothers Seed Company Cafeteria, believes that busy men, who assemble for dinner business meetings, like colorful and pleasant sur-

roundings as well as a good meal.

The Annual Meeting in May called for something special. A Hawaiian theme featuring pineapples in the decorations, grass skirts for

the waitresses, colorful "leis" for the guests, and a hollowed-out half pineapple fruit cup for the first course, set a cheerful atmosphere for the meeting to follow.

Lest one gets the impression that the Central Illinois Insurance Managers have unlimited expense accounts, it should be explained that the cafeteria is subsidized by a member firm and the meal costs are nominal.

In the business meeting, the following directors and officers were chosen to serve in the new year: George Heinrick, Caterpillar Tractor Company, President, F. G. Sutherland, Illinois Power Company, Vice President, A. A. Baker, Funk Brothers Seed Company, Secretary, Treasurer; John D. Alexander, Illinois Wesleyan University, Director; Richard Flanders, Decatur Herald and Review, Director.

It was voted to resume meetings on the second Thursday in September, at the same place. It was also voted to have some of the meetings include a plant visitation followed by a round table discussion of the insurance problems the plant visitation suggests.



Central Illinois Insurance Managers Association. Annual Meeting, May 1954, Bloomington, Illinois.

WHAT DOES THE BUYER EXPECT OF HIS BROKER?

By GEORGE FOUCHE, Controller and Assistant General Manager, Swinerton & Walberg Co., San Francisco, California

I have been asked to present to you the position of the part-time buyer of insurance, his relations with his broker and his requirements of the insurance broker.

I would like to point out quickly that the designation "part-time buyer" does not mean that you only work a part of the day. It merely means that along with other responsibilities that are heaped upon you, you are saddled with several score insurance policies and asked to properly manage them.

Fortunately for me, the problem of the relations with the broker is one that we have closely examined in recent years, and to make this little speech easy, I propose to review for you the steps that were taken in our organization to solve the problems in this regard.

First, a word about our firms. We, speaking of my responsibilities, consist of three corporations, two partnerships, and innumerable joint ventures. My position is that of controller and assistant general manager and I have all of the financial and office responsibilities of these firms, in addition to the buying of their insurance.

Our sole business is construction and we accomplish an aggregate volume of about forty million dollars a year, exclusive of joint venture work.

One of the joint ventures in which we are presently interested, Brown - Pacific - Maxon, has about fifty million dollars in Guam contracts on hand.

We do all types of construction, including bridges, office buildings, wharves, factories, military installations, air fields and many others, specializing in the post-war years in industrial construction and office buildings. We do very small jobs as well as jobs of great magnitude.

We have performed contracts in every part of the United States and in several foreign countries. Among the local work we have performed, and with which you are probably familiar, we include the telephone building, the Standard Oil Building, the 450 Sutter Building, the 111

Sutter Building, and many others.

We do not believe that our insurance problems are minor or that they are easy to solve. We believe that we present major problems that require a good knowledge of our business and an excellent knowledge of insurance. We believe that this experience and knowledge must come from either within or without the business.

Several years ago we utilized the services of several brokerage firms at the same time. In addition to this we were frequently harassed by brokers who, through a slight acquaintance in any of our firms, would feel free to seek us out and request that they be selected as our broker.

After sweating through many of these interviews, putting off these friends without hurting anyone's feelings, and after working for some time with brokers, some of whom were not suited to our business, we put the problem directly to management, then asked for their solution.

After several conferences, a committee was formed to completely investigate our brokerage set-up, and to interview these interested brokers. This committee consisted of our general manager, an attorney from our legal firm, our outside Certified Public Accountant and myself. Our aim was to make a program of insurance that could be followed with logic and reason, and to make a definite selection of a broker or brokers based on sound business practices.

After a great deal of consideration, the committee felt that a careful selection of a good broker would allow our continuance of so-called part-time buying. In order to fully cover the field of inquiry, we divided the responsibilities of this committee into four parts, and each member agreed to pursue his assigned portion to his own satisfaction. The management representative took the subject of service capabilities of the broker, developing his inquiry along the lines of whether or not the broker could give us the service that we need

and expect from an insurance broker. Some sample questions that were asked along these lines:

(1) What facilities are available in the broker's office for the handling of a contractor's account?

(2) What facilities does the broker have in other areas of California, and what facilities does the broker have in other states?

(3) Is the broker equipped to perform the function of credit advisor on other contractors and subcontractors, and is the broker equipped to give this service on short notice?

(4) What acquaintanceship and experience has the broker had in the associated field of contracting, including the awarding bodies, architects, engineers, subcontractors and materialmen?

The legal representative assumed as his assigned field the adaptability of the broker to the special problems of our business, such as bonding requirements, joint venture protection and others. Some of the questions asked in this field included:

(1) What experience does the broker have in the performance bonding field?

(2) What experience does the broker have in handling joint venture business?

(3) What experience and capability does the broker have with regard to the proper selection of subcontractors and materialmen, and their bonding?

(4) What is the volume of bonding business handled by the broker and what buying power with the surety companies does this give the broker? Can he write a bond on short notice?

Our Certified Public Accountant inquired into the organization of each broker, the specialties of that broker and the volume of the broker's business. Some of the questions asked here were:

(1) Approximately what is the broker's annual volume? Of the annual premium volume of the broker, what are the major divisions by business?

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(2) What are the major divisions of the broker's total annual volume as related to the various fields of insurance?

(3) What is the experience of the broker with relation to the financial statements and tax requirements of their clients.

(4) What is the organization of the broker? How many people are employed in its principal offices? What branch offices does it have?

The fourth category, which I pursued as the insurance representative on the committee, was to inquire into the broker-buyer relationship and the service that the buyer could expect. Some of these questions included:

(1) Is the broker equipped to handle all of the fields of insurance required by the contractor?

(2) What specialists does the broker have in his office for the performance of the individual policy requirements of the contractor?

(3) How much detail is the broker equipped to handle, and how much detail is the broker willing to handle in removing the burden of correspondence from the contractor?

(4) Is the broker capable of as-

suming positive control over the carrier selected in such a fashion that the contractor will not have to continually administer the policies?

Although these were by no means all of the questions, they should give you a general idea of the lines of inquiry that we pursued in order to ascertain the make-up of the broker.

After careful interviews with several brokers, including an interview with each of our then existing brokers, we found that one of these was outstanding in all of our fields of inquiry, and was eminently qualified to do our business. This committee recommended to management that they assume full brokerage of all of our firms and this recommendation was accepted.

We feel that the broker for a part-time buyer must be more carefully selected than brokerage arrangements that are made by firms having full departments with the time and personnel equipped to handle insurance.

We rely heavily upon our brokers for the sound administration of our insurance. Much of the reliance that is placed upon the organization within the firm that has the large insurance department, is placed by

us upon our brokers. It is our feeling that the brokers more than earn their commissions in doing the work that they perform for us.

To briefly summarize some of the thinking that we have put upon the selection of brokers, I would like to advance the following questions which any of you may use in the analysis of our own brokers:

(1) Is a specialty broker required or desirable by either the nature of the business or the degree of the insurance work done within the firm?

(2) What can the broker do for you that you cannot do for yourself? Does the broker have markets or influence in insurance markets that you cannot muster?

(3) Is your premium volume important to the broker? Is it too great a percentage of his total business?

(4) How many people are in his office and how do his offices look? How many people in his office are acquainted with your business and will be handling your account? How many experts does he have?

Each business presents an entirely different problem to the broker, and only through the searching by the firm itself can a sound insurance policy be evolved.

Experience in Adjusting

(Continued from page 10)

ing expenses which were allocated to the units of production lost. These expenses included administrative and general, selling, engineering, supervisory and clerical salaries, shop supplies, rental of the Springfield facility, taxes, depreciation on equipment, and maintenance and repair expense. In fact, a proportionate amount of all of our general expense categories was recovered in this settlement.

Some may question how we would have fared on the co-insurance aspect had we settled shortly after the fire. Actually the co-insurance penalty might have been greater since we experienced a surge in value in the first quarter of 1951 which had not been brought to our attention in the Insurance Department. In the Insurance Department we regularly review business interruption values quarterly.

As of the date of the fire, April 2, we had just completed raising the amount of insurance in force based on the results for the fourth quarter of 1950. The first quarter of 1951 trended upward also to a point where we would have been required to carry a greater amount of insurance in force as of April 2, 1951 than the actual figures for the next 12 months produced.

Now, with a million dollar interim binder on a reporting form with the FIA on all three plants, we come closer to eliminating the possibility of becoming underinsured.

Incidentally automatic sprinklers were installed in this plant within the past two years. The cost of business interruption coverage dropped from \$6,375.00 a year to approximately \$1,000.00 a year.

Trailmobile buys business interruption insurance on its manufac-

turing plants for the following reasons. We have only one tank plant. Loss of it for three or four months could adversely affect our over-all Company earnings. The other two manufacturing plants are located in Cincinnati and Berkeley, California. Freight is a very important factor in our industry and distance from the market would make it very difficult to supply economically from Cincinnati or Berkeley, units originally ordered from one of these plants in the event it were destroyed.

I hope this account of an actual business interruption loss will prove helpful to those of you who have not had to worry through one, and possibly out of our experience you may want to re-examine your own policies and question some features which to date you have not had an occasion to test by an actual loss.

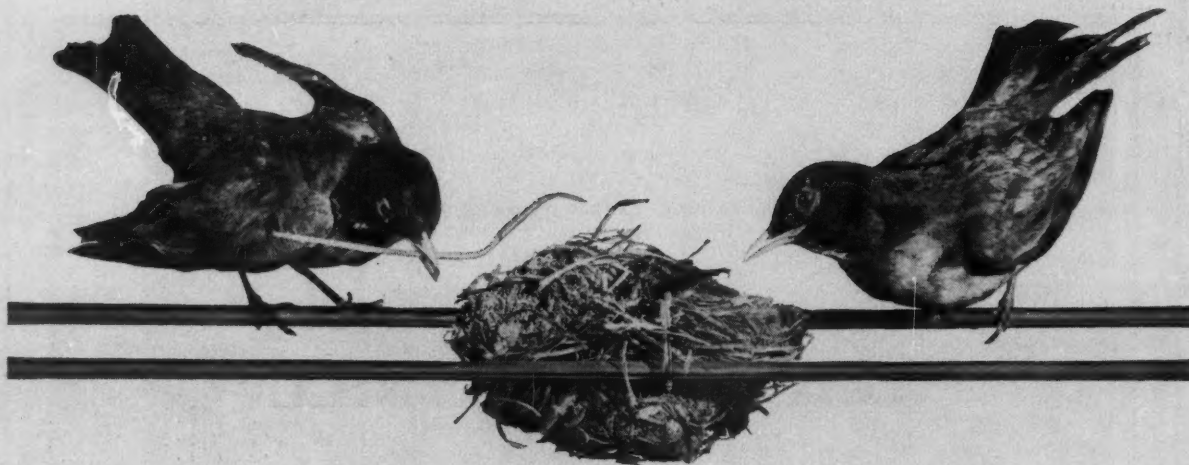
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Their love nest cost \$88,000!

When the tawny robins build in Honduras, their large hollowed mounds of sticks and trash are usually located in trees. But not always.

Recently, these birds chose high-voltage trunk lines — and short-circuited an entire power house! Generators, transformers, all the above-ground equipment and the building were totally destroyed by fire.

That very day, agents for American International Underwriters started work on the claim. The plant had been built over forty years ago, and its value might be expected to have declined by at least half.



American International Underwriters companies

INSURANCE AND REINSURANCE WORLD-WIDE

But so carefully had it been maintained that the claim of \$88,206 was allowed and paid in full!

This on-the-spot service is typical of the world-wide AIU organizations. Policies written by AIU experts provide broad coverage, yet conform with the insurance laws and customs of the country concerned. And claims are paid in the same currency as premiums — including U. S. dollars wherever the law allows.

Financial stability is assured by the strength and security of leading insurance companies in the United States.

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